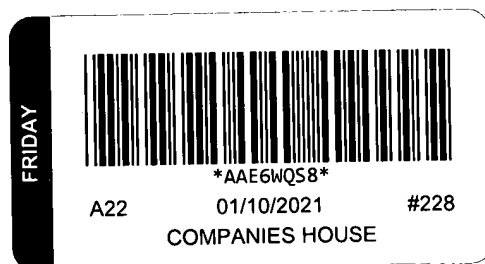


IOG UK Limited

Annual Report and Audited Financial Statements

For the year ended 31 December 2020

Company Number 08619688



IOG UK Limited

Annual report and audited financial statements for the year ended 31 December 2020

Contents

Page:

| | |
|----|--|
| 1 | Strategic report |
| 6 | Directors' report |
| 8 | Independent auditor's report |
| 12 | Statement of comprehensive income |
| 13 | Statement of changes in equity |
| 14 | Statement of financial position |
| 15 | Notes forming part of the financial statements |

Country of incorporation

England and Wales

Legal form

Private limited company with share capital

Directors

Andrew Hockey

Rupert Newall

Company Secretary

Robin Storey

Registered office

6th Floor

60 Gracechurch Street

London EC3V 0HR

United Kingdom

Company number

08619688

IOG UK Limited

Strategic Report for the year ended 31 December 2020

The Directors present their Strategic Report, Directors' Report and the audited financial statements of IOG UK Limited (the 'Company' or 'IOGUK') for the year ended 31 December 2020. All amounts are shown in Pounds Sterling, unless otherwise stated.

STRATEGIC REPORT

Review of activities and business review

The Company is currently the licensee and operator of three Traditional Licences and one Innovate C Licence all in the Southern North Sea ('SNS'):

- P1915 covering Block 49/21c in which lies the Southwark (previously named Vulcan South) discovery;
- P039 covering Block 49/21a in which lies the Elland (previously named Vulcan East) discovery;
- P130 covering Block 48/25a in which lies the Nailsworth (previously named Vulcan North West) discovery; and
- P2342 covering Block 48/25a which lies adjacent to the Nailsworth discovery.

IOGUK holds all licences at 50% ownership.

IOG UK Limited

Strategic Report for the year ended 31 December 2020 (continued)

Vulcan Satellites – Southwark, Elland and Nailsworth

The Vulcan Satellites are planned to be developed with Normally Unmanned Installations ("NUI") at Southwark (three wells), Elland (two wells) and Nailsworth (three wells) via the Saturn Banks Pipeline, formerly the Thames pipeline. All three satellites have their reservoirs in the Rotliegend Leman Sandstone.

The Southwark gas discovery in the Rotliegend Leman Formation sits in Block 49/21c in licence P1915 in which IOGUKL has a 50% working interest and is the operator. Southwark is planned to be developed by three wells tied back to the Saturn Banks Pipeline via the Southwark unmanned platform. Reprocessing of seismic data undertaken in 2020 across the field has improved the structural imaging and aided development well planning. The Southwark development wells are expected to be batch drilled as part of the Phase 1 drilling campaign. In their 2017 CPR, ERC Equipoise assessed gross 1P/2P/3P Southwark gas reserves to be 55.2/93.3/144.1 BCF.

Following Phase 1 FID in October 2019, the Phase 1 FDP, comprising the Blythe, Elgood and Southwark fields, was approved by the OGA in April 2020, targeting first gas in Q4 2021. Intensive work continued in 2020 across all key elements of the Phase 1 development, with a view to successful start-up targeted in Q4 2021. Fabrication of the Southwark and Blythe platforms at HSM's yard in Schiedam progressed substantially, working through Covid-19 restrictions, and was installed offshore in June 2021. At the time of this report, the Southwark platform has been installed in the Southern North Sea and is undergoing hook up and commissioning.

Nailsworth and Elland, the other two Vulcan Satellites, will be part of Phase 2 of the development.

Given the development sequencing of both Nailsworth and Elland (Phase 2), most current year 2020 fixed asset additions have been attributable to the Southwark development area.

Further to the Vulcan East (Elland) suspended well 49/21-10A decommissioning paper, prepared by Acona in April 2015, IOGUK has revisited the abandonment provision. Given drilling work is now envisaged to be occurring in the area of the suspended well during the Phase 2 development works, it is envisaged that the decommissioning can be completed at a cost of £2.4 million, due to savings with synergies associated with this development drilling programme. Following the farm-out to Cal Energy Resources Limited, 50% this amount will be borne by the company at a cost of £1.2 million.

The Company's technical view and cost estimates were provided to the Competent Person, ERC Equipoise Limited; subsequently their report was released in October 2017, determining the Vulcan Satellites to contain 1P/2P/3P reserves 'Justified for Development' and reflecting the 50% farm-out to Cal Energy Resources Limited as follows:

| Vulcan Satellites | Gas Reserves (bcf) | | | Condensate Reserves (mmbbls) | | |
|-------------------------------|-----------------------|--------------|--------------|---------------------------------|------------|------------|
| | 1P | 2P | 3P | 1P | 2P | 3P |
| Nailsworth | 30.2 | 49.7 | 73.6 | 0.3 | 0.5 | 0.7 |
| Elland | 20.0 | 27.5 | 36.5 | 0.0 | 0.0 | 0.0 |
| Southwark | 30.6 | 47.0 | 68.8 | 0.0 | 0.0 | 0.1 |
| Total (arithmetic sum) | 80.8 | 124.2 | 178.9 | 0.3 | 0.5 | 0.8 |

Source: ERC Equipoise Competent Person's Report 11 October 2017

Key Performance Indicators

The Company's main business is the acquisition and exploitation of oil and gas acreage. Non-financial performance is tracked through the accumulation of licence interests followed by the successful discovery and exploitation of oil and gas reserves as indicated through prospective, contingent and proved reserves inventories. Financial performance is tracked through the raising of finance to fund proposed programmes and the control of costs against budgets. The Company has two main KPIs, the first of which is to cause no harm to people or the environment and the second of which was to sustain no Lost Time Incidents, both of which were met in 2020.

IOG UK Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties

The Company operates in the oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Being at an early stage, the prime risks to which the Company is subject to are:

- access to sufficient funding to continue its operations;
- changes in both costs and reserves estimates for its assets;
- changes in forward commodity prices; and
- the successful development of its oil and gas reserves.

Key risks and associated mitigation are set out below.

| Finance: Management seeks to generate shareholder returns through investment in a portfolio of appraisal and development acreage leading to the drilling of wells, the discovery of commercial reserves followed by their exploitation. Delivery of this business model carries several key risks. | |
|---|--|
| Risk | Mitigation |
| Market support may be eroded obstructing fundraising and lowering the share price | <ul style="list-style-type: none"> • Management regularly communicates its strategy to shareholders • Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity |
| General market conditions may fluctuate hindering delivery of the Company's business plan | <ul style="list-style-type: none"> • Management aims to retain adequate working capital and secure finance facilities sufficient to ride out downturns should they arise |
| Each asset carries its own risk profile and no outcome can be certain | <ul style="list-style-type: none"> • Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively |
| The parent company may not be able to raise funds to exploit the Company assets or for the Company to continue as a going concern | <ul style="list-style-type: none"> • The Company's parent successfully undertook equity, debt and farm-out funding from CER in 2019 which fully funded the Company's Phase 1 activities. It anticipates that cash flows from Phase 1 will help to fund further phases of development, with Phase 2 also benefiting from an agreed £65.0 million of partner development carry. |

IOG UK Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

| Licensing & Regulation: The Company may be unable to meet its licence and regulatory obligations. | |
|--|--|
| Risk | Mitigation |
| UKCS Licences may be revoked | <ul style="list-style-type: none"> Continue proactive communications with the OGA to determine licence status and meet requirements |

| Operations: Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes. | |
|--|--|
| Risk | Mitigation |
| Individual wells may not deliver recoverable oil and gas reserves | <ul style="list-style-type: none"> Thorough pre-drill evaluations are conducted to identify the risk/reward balance Exposure selectively mitigated through farm-out |
| Operations may take far longer or cost more than expected | <ul style="list-style-type: none"> Management applies rigorous budget control Adequate working capital is retained to cover reasonable eventualities |
| Resource estimates may be misleading curtailing actual reserves recovered | <ul style="list-style-type: none"> The Company deploys qualified personnel Regular third-party reports are commissioned A prudent range of possible outcomes are considered within the planning process |

| Human Resources: The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies | |
|--|--|
| Risks | Mitigation |
| Key personnel may be lost to other companies | <ul style="list-style-type: none"> The Group's Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive |
| Difficulty in attracting the necessary talent as the Company moves into development of its projects | <ul style="list-style-type: none"> The Company continues to review and adopt attractive packages for both staff and contractors |


IOG UK Limited

Strategic Report for the year ended 31 December 2020 (continued)

Principal Risks and Uncertainties (continued)

| Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success | |
|--|--|
| Risk | Mitigation |
| Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products | <ul style="list-style-type: none"> Price mitigation strategies may be employed at the point of major capital commitment Gas may be sold under long-term contracts reducing exposure to short term fluctuations Oil and gas price hedging contracts may be utilised where viable Budget planning considers a range of commodity pricing |
| Risks arising from Brexit | <ul style="list-style-type: none"> Major contracts for Phase 1 awarded or to be awarded in 2020. There is no clear exposure to customs-related risks to cross-border movement of goods through the supply chain. The Company has primary exposure to only three currencies, GBP, EUR and USD, and has raised finance in both GBP and EUR. The Company proactively assesses and manages FX risks. |
| The Company may not be able to get access, at reasonable cost, to infrastructure and product markets when required | <ul style="list-style-type: none"> A range of different off-take options are pursued wherever possible |
| Credit to support field development programmes may not be available at reasonable cost | <ul style="list-style-type: none"> The Company seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage as practicable |
| COVID-19 Pandemic and associated economic volatility materially disrupts the Company's ability to deliver its key corporate objectives | <ul style="list-style-type: none"> The Company has already secured funding to achieve first gas and free cash flow, and is not dependent on current cash flows to fund itself The Company has implemented logistical and organisational changes to underpin its resilience to severe economic disruption driven by COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity |
| Adverse environmental effects of our activities including, in particular, contributing to Climate Change | <ul style="list-style-type: none"> The Company has established a Climate Change and Sustainability Policy, which can be read in full on its website Strategic focus on domestic natural gas resources as a key fuel for the Energy Transition with lower carbon content than other hydrocarbons (including imported gas) Use of low carbon intensity facilities, including re-use of existing infrastructure |

On behalf of the board


 Andrew Hockey
 Director
 29 September 2021

IOG UK Limited

Directors' Report for the year ended 31 December 2020

Results and dividend

The Company made a loss on ordinary activities for the year of £233k (2019: profit £3,224k), which includes a foreign exchange loss of £233k (2019: nil)

The Directors do not recommend the payment of a dividend (2019: nil).

Funding and Liquidity

After a review of the forecasts the Board have a reasonable expectation that the Group has adequate resources to continue support the Company in operational existence for the period under review and therefore consider it appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements. However, the Directors acknowledge that at the date of approval of this Annual Report and Accounts, the potential future impact of the reverse stress test scenarios on its modelling and the sensitivity of the delivery schedule, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Parent Company's ability to continue as a going concern and funding of the Company and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern. The cash resources of the Group will be used over the coming months to support the Company to deliver the Phase 1 project which will then generate cash flow from gas production.

Directors and their interests

The Directors who held office during the year, and at the date of this report, were:

Andrew Hockey

Mark Hughes - resigned 11 November 2020

Rupert Newall - appointed 11 November 2020

There are no directors' interests requiring disclosure under the Companies Act 2006.

Indemnities

The Company did not provide Directors and Officers Liability insurance during the year (2019: nil).

Financial instruments

Information on financial instruments can be found in Note 12 to the financial statements.

Related parties

Information on related parties can be found in Note 14 to the financial statements.

Subsequent events

Information on subsequent events can be found in Note 16 to the financial statements.

IOG UK Limited

Directors' Report for the year ended 31 December 2020 *(continued)*

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmation


Each person who is director at the time when this report is approved has confirmed that:

- a. So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b. Each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors for that purpose, in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

BDO LLP have expressed their willingness to continue in office and a resolution to re appoint them will be proposed at the Annual General Meeting.

On behalf of the board



Andrew Hockey
Director

29 September 2021

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2020

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of IOG UK Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements which sets out the Directors' considerations relating to the Company's ability to continue as a going concern. The Company is dependent on funding from its Parent Company who itself has a material uncertainty in relation to going concern which may therefore affect its ability to provide the necessary financial support to the Company.

As stated in note 1, these events or conditions, along with the other matters as set out in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2020 *(continued)*

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2020 *(continued)*

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the laws and regulations of the United Kingdom to be the most relevant to the audit given the geographical area of focus of the Company. As part of our audit work we reviewed and held meetings with the relevant internal Management and formed our own opinion on the extent of the Company's compliance.

In addition, our testing also included, but was not limited to:

- Testing the financial statement disclosures to supporting documentation
- Performing substantive testing on account balances which were considered to be a greater risk of susceptibility to fraud
- Making enquiries of Management as to whether there was any correspondence from regulators in so far as the correspondence related to the financial statements
- Performing targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, for example capitalisation entries to development and production assets without a corresponding entry to cash or trade payables
- Critically assessing areas of the financial statements which include judgement and estimates, as set out in note 1 to the financial statements
- Performing an assessment of the Company's IT and the wider control environment. Included within this testing we assessed the process for Management approval and Board sanction of cost requisitions.

These procedures are designed to address the risk of material misstatements in respect of irregularities, including fraud, but do not provide absolute assurance as to the non-existence of any such misstatements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2020 *(continued)*

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Anne Sayers

8B382C356CA246E
Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK
30 September 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

IOG UK Limited

Statement of comprehensive income for the year ended 31 December 2020

| | Note | 2020 £000 | 2019 £000 |
|--|------|--------------|--------------|
| Management charges | 2 | - | (270) |
| Other administrative expenses | 2 | - | 25 |
| Profit on disposal of Oil & Gas assets | 4 | - | 3,469 |
| Foreign exchange (loss) | | (233) | - |
| | | <hr/> | <hr/> |
| Operating (loss) / profit | | (233) | 3,224 |
| | | <hr/> | <hr/> |
| Loss / (profit) for the year before taxation | | (233) | 3,224 |
| Taxation | 5 | - | - |
| | | <hr/> | <hr/> |
| Total comprehensive (loss) / profit for the year attributable to equity holders | | (233) | 3,224 |
| | | <hr/> | <hr/> |

The Notes on pages 15 to 28 form part of these financial statements.

IOG UK Limited

Statement of changes in equity for the year ended 31 December 2020

| | Share capital £000 | Share premium £000 | Accumulated deficit £000 | Total equity £000 |
|--|--------------------------|--------------------------|--------------------------------|-------------------------|
| At 1 January 2019 | 4,180 | 22,204 | (23,765) | 2,619 |
| Profit and total comprehensive income for the year | - | - | 3,224 | 3,224 |
| At 31 December 2019 | 4,180 | 22,204 | (20,541) | 5,843 |
| At 1 January 2020 | 4,180 | 22,204 | (20,541) | 5,843 |
| Loss and total comprehensive loss for the year | - | - | (233) | (233) |
| At 31 December 2020 | 4,180 | 22,204 | (20,774) | 5,610 |

Share capital

Amounts subscribed for share capital at nominal value.

Share premium

Amounts received by the Company on the issue of its shares above the nominal value of the shares.

Accumulated deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The Notes on pages 15 to 28 form part of these financial statements.

IOG UK Limited

Statement of financial position at 31 December 2020

Company Number: 08619688

| | Note | 2020 £000 | 2019 £000 |
|---|------|-----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment: development and production | 6 | 17,760 | 10,001 |
| | | <u>17,760</u> | <u>10,001</u> |
| Current assets | | | |
| Trade and other receivables | 7 | - | 1,597 |
| Restricted Cash | 11 | 100 | - |
| | | <u>100</u> | <u>1,597</u> |
| Total assets | | <u>17,860</u> | <u>11,598</u> |
| Current liabilities | | | |
| Trade and other payables | 8 | (4,284) | (423) |
| Advances from parent company | 8 | (6,766) | (4,132) |
| | | <u>(11,050)</u> | <u>(4,555)</u> |
| Non-current liabilities | | | |
| Other liabilities | 9 | (1,200) | (1,200) |
| | | <u>(1,200)</u> | <u>(1,200)</u> |
| Total liabilities | | <u>(12,250)</u> | <u>(5,756)</u> |
| Net assets | | <u>5,610</u> | <u>5,842</u> |
| Capital and reserves | | | |
| Share capital | 10 | 4,180 | 4,180 |
| Share premium | | 22,204 | 22,204 |
| Accumulated deficit | | (20,774) | (20,541) |
| | | <u>5,610</u> | <u>5,843</u> |

The financial statements were approved and authorised for issue by the Board of Directors on 29 September 2021 and were signed on its behalf by:



Andrew Hockey
Director
29 September 2021

The Notes on pages 15 to 28 form part of these financial statements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020

1 Accounting policies

Basis of preparation

IOG UK Limited is a private limited company incorporated and domiciled in England and Wales. The Company's financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 29 September 2021.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements are presented in Pounds Sterling which is also the Company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards – FRS 101 and with those parts of Companies Act 2006 applicable to companies preparing their accounts using FRS 101.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of certain relevant disclosure exemptions conferred by FRS 101 and has not provided:

- a Statement of Cash Flows and related disclosures for cash flows from discontinued activities
- disclosure of the effect of future accounting standards not yet adopted
- Related party transactions with two or more wholly owned members of the group

The Company holds a Restricted cash balance of £100k represents decommissioning deposit for Elland well.

The Company has taken advantage of the Statement of Cash Flow disclosure exemption under FRS 101 and the exemption available not to discuss the impact of new standards issued but not yet effective.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in this Note 1 on pages 15 to 21. The financial statements have been prepared on a historical cost basis.

Going concern

In assessing the Company's status as a going concern the Board has reviewed the Company's cash flow forecasts having regard to its current financial position and operational objectives. The Company is reliant on the Parent Company for funding as the cash resources of the wider Group will be used over the coming months to support the Company to deliver the Phase 1 project which will then generate cash flow from gas production.

After a review of the forecasts up until February 2023 the Board have a reasonable expectation that the Group and Parent Company has adequate resources to continue to support the Company in operational existence for the period under review and therefore consider it appropriate to continue to adopt the going concern basis in preparing the financial statements. The Company has received a letter of support from the Parent Company indicating its intention to provide the necessary financial support to the Company for a period of at least 12 months from the date of approval of the financial statements.

However, the Directors acknowledge that at the date of approval of this Annual Report and Accounts, the potential future impact of the reverse stress test scenarios on its modelling and in particular the sensitivity of the delivery schedule indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Parent Company's ability to continue as a going concern and therefore its ability to provide the necessary funding to the Company. This indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

1 Accounting policies (continued)

Oil and gas exploration, development and producing assets

The Company adopts the following accounting policies for oil and gas expenditures based on the stage of development of the assets:

a) Pre-Licence

Expenditure incurred prior to the acquisition and/or award of a licence interest is expensed to the Statement of Comprehensive Income as 'exploration and evaluation expenses'.

b) Exploration and evaluation ('E&E')

Capitalisation

Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs, and other directly attributable costs of exploration and appraisal including technical and administrative costs, are capitalised as intangible exploration and evaluation ('E&E') assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ('D&P') asset, within property, plant and equipment ('PPE'), following development sanction by the Board, but only after the carrying value is assessed for impairment at the point of transfer and, where appropriate, its carrying value adjusted. Following development sanction by the Board, a Field Development Plan ('FDP') may be submitted. If it is subsequently assessed that commercial reserves have not been discovered, the E&E asset is written off to the Statement of Comprehensive Income. The Company's definition of commercial reserves for such purpose is proven and probable ('2P') reserves on an entitlement basis.

Intangible E&E assets that relate to E&E activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to impairment assessments as set out below.

Impairment

The Company's oil and gas assets are analysed into cash generating units ('CGU') for impairment reporting purposes, with E&E asset impairment testing being performed at an individual asset level. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. Such indicators would include but not limited to:

- (i) sufficient data exists that render the resource uneconomic and unlikely to be developed;
- (ii) title to the asset is compromised;
- (iii) budgeted or planned expenditure is not expected in the foreseeable future; and
- (iv) insufficient discovery of commercially viable resources leading to the discontinuation of activities.

The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are separately recognised and written off to the Statement of Comprehensive Income.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

A previously recognised impairment loss is reversed if the recoverable amount increases because of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairments and impairment charges are credited/(charged) to a separate line item within the Statement of Comprehensive Income.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

1 Accounting policies *(continued)*

Oil and gas exploration, development and producing assets *(continued)*

c) Development and production ('D&P')

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and subsea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset within property, plant and equipment. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single CGU. The cost of development and production assets also include the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the cost of recognising provisions for future consideration payments.

Depreciation and depletion

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depletion is calculated on a UOP basis based on the 2P reserves of the asset. Any re-assessment of reserves affects the depletion rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field; however, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate may be charged. The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are recoverable reserves and future capital expenditures.

Impairment

A review is carried out for any indication that the carrying value of the Company's D&P assets may be impaired. If any indicators are identified, a review of D&P assets is carried out on a CGU basis and involves comparing the carrying value with the recoverable value of the CGU. The recoverable amount is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from production of commercial reserves. Impairment resulting from the impairment testing is charged to a separate line item within the Statement of Comprehensive Income.

The pre-tax future cash flows are adjusted for risks specific to the CGU and are discounted using a pre-tax discount rate. The discount rate is derived from the Company's post-tax weighted average cost of capital and is adjusted where applicable to consider any specific risks relating to the country where the CGU is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. The Company uses a risk adjusted discount rate of 10%, unless otherwise stated.

The CGU basis is generally the field, however, oil and gas assets, including infrastructure assets may be accounted for on an aggregated basis where such assets are economically inter-dependent.

Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Company's future obligations.

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as a charge or credit to the income statement. The unwinding of the discount is reflected as a finance expense.

In the case of a D&P asset, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, this is included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the UOP method based on commercial reserves should the project proceed to production.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

1 Accounting policies *(continued)*

Disposals

The gain or loss arising from the de-recognition of an item of PPE is included in profit or loss when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

For the Farm down of an E&E, D&P or pipeline asset, proceeds from the farm-down are credited against the previously capitalised costs of the asset and any surplus or shortfall proceeds above or below the representative percentage of the carrying value of the asset or assets being farmed down are credited or debited to the Statement of Comprehensive Income accordingly.

Foreign currencies

The functional and presentation currency of the Company is GBP Sterling.

The Company translates foreign currency transactions into its functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the reporting date. Exchange differences arising are taken to the Statement of Comprehensive Income except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Taxation

Current Tax

Tax is payable based upon the taxable result for the year. The taxable result differs from the net result as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible. Any Company liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in oil and gas assets, except where the Company can control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

1 Accounting policies (continued)

Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument and are subsequently measured at amortised cost.

Classification and measurement of financial assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. The Company's financial assets are measured at amortised costs and are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.

Restricted cash includes cash balances that are subject to access restrictions or have conditions attached to their drawdown. The restricted cash balance held is collateralised security in the Company's name for future expenditures such as Decommissioning.

The Company's other receivables are measured at amortised cost. Other receivables are initially measured at fair value. The Company holds other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

The Company has no financial assets measured at FVOCI (Fair Value Through Other Comprehensive Income) or FVTPL (Fair Value Through the Statement of Profit or Loss).

Impairment of financial assets

The Company recognises loss allowances for expected credit losses ('ECL's) on its financial assets measured at amortised cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to the lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses.

Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortised cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative or designated as FVTPL on initial recognition.

The Company's trade and other payables, advances and loans from the parent company are measured at amortised cost.

Trade and other payables, partner advance payables and loans from the parent company are initially measured at fair value and subsequently measured at amortised cost. Trade and other payables, advances and loans from the parent company are presented as current liabilities unless payment is not due within 12 months after the reporting period.

The Company has no financial liabilities measured at FVTPL.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

The following are the critical judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

1 Accounting policies *(continued)*

Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Decommissioning

At 31 December 2020, the Company has obligations in respect of decommissioning on Southwark and a suspended well on the Elland asset.

The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, regulatory activity required to ensure such infrastructure meets safety and environmental requirements, the estimated costs and timing of the work and the discount rate applied.

A full decommissioning estimate for the Southwark, Nailsworth and Elland D&P assets remains uncertain until all development infrastructure has been installed and production volumes and time to decommissioning has been considered. Until all development infrastructure has been installed and production volumes and time to abandonment has been considered, there is significant estimation uncertainty when providing a decommissioning estimate.

Key estimates used in the value-in-use calculations

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- Commercial reserves
- production volumes;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates

Commercial Reserves

Commercial reserves are proven and probable ('2P') oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a UOP basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Company with external input from operator profiles and/or a Competent Person. These are reported annually to the Board. Certified estimated future production profiles, as audited by the Competent Person, are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices

An average of published forward prices and the long-term assumption for natural gas and Brent oil are used for future cash flows in accordance with the Company's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs

Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on internal, the Joint Venture operator, and/or third-party duty holder budgets.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

1 Accounting policies *(continued)*

Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Capital expenditure

Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator and/or service contractor cost estimates or specific contracts where available.

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Company. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Company has applied a risk adjusted discount rate of 10% for the current year (2019: 10%).

Sensitivity to changes in assumptions

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the fields are production volumes and commodity prices.

Decommissioning

The Company has obligations in respect of decommissioning the suspended well on the Elland Vulcan D&P asset, as determined by the OGA.

The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. A full decommissioning estimate for the Vulcan Satellites asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. Prior to full development infrastructure and commissioning, the Company has utilised technical reports to estimate costs of abandonment.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

2 Operating Loss (2019: profit)

The Company's operating loss (2019: profit) is stated after charging the following:

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Fees payable to the Company's auditor for the audit of the Company's financial statements | - | 21 |
| Management charges net of amounts capitalised as oil and gas assets | - | 270 |

Audit fees for 2020 were paid and captured by IOG plc, the company's ultimate parent.

3 Staff costs and directors' remuneration

The Company has no employees, other than the directors, who did not receive any remuneration during the year (2019: nil). The parent company provided all management services. The Company did not provide Directors and Officers Liability insurance during the year (2019: nil).

4 Profit on disposal of oil and gas assets

In October 2019, the Company, as part of a larger Group transaction, disposed of 50% of its interests in its oil and gas assets to Cal Energy Resources Limited. Proceeds attributed to the Company were £7,912k of which it disposed of oil and gas assets valued at £4,443k (see note 6), resulting in a profit on disposal of £3,469k.

5 Taxation

a) Current taxation

There was no tax charge during the year. Applicable expenditures will be accumulated for offset against future charges. The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| (Loss) / profit for the year | (233) | 3,224 |
| (Loss) / profit before taxation | (233) | 3,224 |
| Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2019: 40%) | (93) | 1,290 |
| Difference in tax rates | 319 | 50 |
| Excess taxable allowances | (1,933) | (1,456) |
| Disposal | - | (7,374) |
| Unrecognised taxable losses carried forward | 1,707 | 7,601 |
| Total taxation expense | - | - |

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

b) Deferred taxation

Due to the nature of the Company's exploration activities there is a long lead time in either developing or otherwise realising exploration assets. The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position is £46.5 million (2019: £52.6 million). Included within this figure are accelerated capital allowances of £17.7 million (2019: £8.7m).

The Company has not recognised a deferred tax asset at 31 December 2020 on the basis that the Company would expect the point of recognition to be when the Company has some level of production history showing that the Company is making profits in line with the underlying economic model which would support the recognition.

The company has carried forward ring fence tax losses of £46.4m (2019: £ 33.5m) which relate to specific assets of the Company and are also increased with capital expenditure supplements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

6 Property, plant and equipment

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Development and production assets | | |
| <i>At cost</i> | | |
| At beginning of year | 10,001 | 14,122 |
| Additions | 7,759 | 322 |
| Disposals | - | (4,443) |
| At end of the year | 17,760 | 10,001 |
| There has been no impairment recognised historically and none during the current period | | |
| At beginning of year | 10,001 | 14,122 |

7 Current Assets

| | 2020 £000 | 2019 £000 |
|---------------|--------------|--------------|
| Trade debtors | - | 1,597 |
| | - | 1,597 |

8 Current liabilities

| | 2020 £000 | 2019 £000 |
|------------------------------|--------------|--------------|
| Advances from parent company | 6,766 | 4,132 |
| Accruals | 465 | 424 |
| Operator advance account | 3,819 | - |
| | 11,050 | 4,556 |

The parent company has undertaken not to request repayment of advances until the Company has sufficient resources to make payment.

Accruals at 31 December reflect the value of work done undertaken for the year to 31 December, which remains unbilled by vendors and suppliers as at 31 December.

Operator advance accounts represent balances held on behalf of joint venture partner to be used against future expenditure.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

9 Non-current liabilities

| | 2020 £000 | 2019 £000 |
|---------------------------|--------------|--------------|
| Decommissioning provision | 1,200 | 1,200 |
| | <u>1,200</u> | <u>1,200</u> |

The Company has obligations in respect of decommissioning a suspended well on the Elland Licence P039. A full decommissioning estimate for the Vulcan Satellites asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. As per Note 1, the current estimate for abandonment of the Elland suspended well of £2.40 million gross is based upon a recent technical valuation. Following the farm out to Cal Energy Resources Limited the company has recognised its 50% share of the decommissioning liability.

10 Equity share capital

| | Shares Number | Share capital £000 |
|---|------------------|-----------------------|
| <i>Authorised, allotted, issued and fully paid Ordinary shares of £1 each</i> | | |
| At 1 January 2020 | 4,180,100 | 4,180 |
| At 31 December 2020 | 4,180,100 | 4,180 |

11 Restricted cash, Cash and cash equivalents

| | 2020 £000 | 2019 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | - | - |
| Restricted cash | 100 | - |

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 *(continued)*

12 Financial instruments

Significant accounting policies

Details of the significant accounting policies in respect of financial instruments are disclosed in Note 1.

Financial risk management

The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. At this stage, no formal policies have been put in place to hedge the Company's activities against the exposure to currency risk or interest risk and no derivatives or hedges were entered during the year.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk;
- Cash flow interest rate risk; and
- Foreign exchange risk

The overall objective of the Board is to set policies that seek to reduce these risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk may arise are as follows:

- Intercompany advances
- Trade debtors
- Trade and other payables
- Operator advance accounts
- Restricted cash

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

12 Financial instruments (continued)

Principal risks

Liquidity risk

The Company holds a decommissioning deposit recognised as restricted cash, but is funded entirely by its parent company and therefore has no liquidity risk separate from that of its parent company. Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board and then passed to its parent company to ensure that sufficient financial resources are made available.

| | 6 months or less £000 | Greater than 6 months, less than 12 months £000 | Greater than 12 months £000 | Total undiscounted £000 | Carrying amount £000 |
|--------------------------------------|-----------------------------|--|--------------------------------------|-------------------------------|----------------------------|
| 31 December 2020 | | | | | |
| Current financial liabilities | | | | | |
| Advances from parent | 6,766 | - | - | 6,766 | 6,766 |
| Accruals | 465 | - | - | 465 | 465 |
| Operator advance accounts | 3,819 | | | 3,819 | 3,819 |
| | <u>11,050</u> | <u>-</u> | <u>-</u> | <u>11,050</u> | <u>11,050</u> |
| 31 December 2019 | | | | | |
| Current financial liabilities | | | | | |
| Advances from parent | 4,132 | - | - | 4,132 | 4,132 |
| Accruals | 424 | - | - | 424 | 424 |
| | <u>4,556</u> | <u>-</u> | <u>-</u> | <u>4,556</u> | <u>4,556</u> |

Cash flow interest rate risk

Advances from the parent company are non-interest bearing. Variations in commercial interest rates would have no impact upon the Company's result for the year ended 31 December 2020 (2019: nil). The company holds operator advance balances on behalf of joint venture partner. These balances originate from the timing differences between the forecasted and actual expenditure. These balances are non-interest bearing.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

12 Financial instruments (continued)

Principal risks (continued)

Foreign exchange risk

The Company carried limited exposure to foreign exchange risk during the period to 31 December 2020 (2019: nil). Its costs are incurred almost entirely in Pounds Sterling and it has no current revenues. It is the Company's policy to enter transactions in its functional currency wherever possible and it monitors any currency exposures regularly. The Company considers this minimises any foreign exchange exposure. Consequently, no formal policies have been put in place in order to hedge the Company's activities to the exposure to currency risk.

Capital management

The primary objective of the Company's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditures, and to safeguard the entity's ability to continue as a going concern and create shareholder value.

13 Financial commitments and contingent liabilities

The Company has authorised and committed capital expenditure in the current year as part of the development work programme for the licences in which it participates:

| | 2020 £000 | 2019 £000 |
|------------|--------------|--------------|
| Contracted | 290 | 185 |
| | <u>290</u> | <u>185</u> |

All 2020 contracted amounts relate to contracted UKCS Licence Fees, associated 2020 OGA Levy payments and project management commitments only. 2019 contracted amounts related to contracted UKCS Licence Fees, associated 2020 OGA Levy payments and project management commitments only.

14 Related party transactions

Except for funds received from the ultimate parent company for transactions paid on behalf of the Company as disclosed in Note 8, there were no additional related party transactions in the year.

15 Ultimate parent company

The Company's immediate parent undertaking is IOG plc, a company registered in the United Kingdom and whose registered address is 60 Gracechurch Street, London EC3V 0HR. This parent undertaking is the holding company of both the largest and the smallest group for which group accounts are prepared and of which the Company is a member. Both these parent company and group accounts can be found on the parent company website at www.iog.co.uk.

16 Subsequent events

The key events after 31 December 2020 are as follows:

On 7 June 2021 the parent company announced the installation of the Southwark and Blythe platforms. On 29 July 2021 the parent company announced the execution of a gas sales agreement with Gazprom Marketing & Trading Limited ("GM&T"). This follows a competitive offtake process involving more than 10 bidders over recent months.